

**Technical Note**  
**Gross Domestic Product, Third Quarter 2003 (Preliminary)**  
**November 25, 2003**  
and  
**Comprehensive NIPA Revision Scheduled for December 10**

This technical note provides background information about the source data and estimating methods used to produce the estimates presented in the GDP news release; the note also provides some perspective on the estimates. Additional material will be posted to BEA's Web site <[www.bea.gov](http://www.bea.gov)> as it becomes available over the next few days.

Real GDP (revised): Real GDP is now estimated to have increased 8.2 percent (annual rate) in the third quarter of 2003 after increasing 3.3 percent in the second quarter. The revised estimate for the third quarter is 1.0 percentage point higher than the advance estimate released a month ago. As in the advance estimate, growth was boosted by consumer spending, by business investment in equipment and software, by exports, and by investment in housing.

Real final sales of domestic product -- GDP less change in private inventories -- increased 8.0 percent in the third quarter after increasing 4.0 percent in the second.

Prices (revised): The price index for gross domestic purchases increased 1.8 percent in the third quarter, 0.1 percentage point less than in the advance estimate. This measure of prices increased 0.4 percent in the second quarter. The step-up from the second quarter to the third partly reflected an upturn in energy prices; excluding food and energy prices, the index increased 1.4 percent in the third quarter after increasing 0.8 percent in the second.

**Corporate Profits and GNP**

The news release that presents the preliminary estimate of third-quarter GDP also presents BEA's first estimates of corporate profits and gross national product (GNP) for the quarter.

Corporate Profits: Profits from current production (that is, "corporate profits with inventory valuation and capital consumption adjustments") increased 11.8 percent (quarterly rate) in the third quarter after increasing 9.9 percent in the second. Profits were 30.0 percent higher in the third quarter of 2003 than in the third quarter of 2002. The current-production measure differs from profits as they are usually reported in corporate financial statements in that it excludes non-operating items, such as special charges and capital gains and losses, and is based on depreciation of fixed assets and inventory withdrawals valued at current cost, rather than at historical cost.

Real GNP: Real GNP increased 8.1 percent in the third quarter after increasing 3.5 percent in the second. GNP equals GDP plus incomes, mainly on investments, earned abroad by U.S. residents less similar incomes earned in the United States by foreign residents. Net income receipts from the rest of the world decreased \$3.0 billion (chained 1996 dollars) in the third quarter after increasing \$5.9 billion in the second.

## **Sources of Revision to Real GDP**

The upward revision to third-quarter real GDP reflected the incorporation of revised and newly available source data for several major GDP components:

- C Inventory investment was revised up, reflecting the incorporation of newly available Census Bureau data on the book value of inventories for September and revised data for August.
- C Business investment in equipment and software was revised up, reflecting the incorporation of newly available quarterly software company revenue data.
- C Exports were revised up, reflecting the incorporation of newly available Census goods data for September.

These revisions were partly offset by a revision to the following GDP component:

- C Imports, which are subtracted in the calculation of GDP, were revised up, reflecting the incorporation of newly available Census goods data for September.

Table A shows both the BEA assumptions used for the advance estimate of GDP and the newly available and revised source data incorporated for the preliminary estimate for selected key series.

## **Comprehensive NIPA Revision Scheduled for December 10**

On December 10, BEA plans to release the initial results of a comprehensive revision of the national income and product accounts (NIPAs). The revision will incorporate improvements that reflect changes to definitions and classifications, to source data and estimating methodologies, and to tables that present the accounts. These improvements are summarized below; detailed information is available on the BEA Web site:

[<www.bea.gov/bea/dn/2003benchmark/CR2003.htm>](http://www.bea.gov/bea/dn/2003benchmark/CR2003.htm)

### **Improvements in Definitions and Classifications**

- C The measure of property and casualty insurance will be changed to better reflect the services that these insurers provide; the measure will be less sensitive to large swings in losses paid or recovered.
- C A portion of the implicit services of commercial banks will be allocated to borrowers, in recognition that both borrowers and depositors receive unpriced services from banks.
- C The role of government as a producer of services will be explicitly recognized. The treatment of government's output and intermediate inputs will parallel the treatment of output and intermediate inputs of private business.
- C The definition of the business sector will be changed; owner-occupied housing and the rental value of nonprofit fixed assets will be moved from the business sector to the households and institutions sector.
- C The definition of national income will be broadened. In addition to incomes accruing to labor and property owners, it will include nonfactor incomes -- indirect business taxes, business transfer payments, and the current surplus of government enterprises.

## **Improvements in Presentation**

- C The NIPA summary accounts, which display basic accounting relationships underlying the NIPAs, will be expanded and brought into closer conformity with international guidelines.
- C Many new tables will present information on percent change and contributions to percent change of real GDP and its components.
- C Estimates of the industrial distribution of income and employment will be based on the 1997 North American Industry Classification System (NAICS) beginning with 1998.
- C Estimates of investment in private and government structures will reflect changes in the Census Bureau's classification of construction projects, beginning with 1997.
- C A new annual table will present separate accounts for households and for nonprofit institutions serving households -- the two entities that comprise the "personal" sector in the NIPAs.
- C The NIPA tables will be reorganized; tables that use similar formats but show different types of estimates (such as current dollars, percent changes, or quantity indexes) will be grouped together.
- C The reference year for real estimates and price indexes will be the year 2000.

## **Statistical and Methodological Improvements**

- C New and revised source data will be incorporated into the NIPAs -- including the 1997 benchmark input-output table, the 1997 Economic Census, annual economic surveys from the Census Bureau, revisions to the international transactions accounts, and much more.
- C Profits estimates will be improved by an adjustment to capture the effects of employee stock options exercised.
- C Estimates of real investment in nonresidential structures and in photocopy equipment will be improved by the use of new price indexes developed by BEA that take account of quality change.
- C Estimates of motor vehicles will be improved by the adoption of new methodologies that will fill a gap in source data and improve the consistency of the auto and truck estimates.
- C Beginning with 1988, a single, consistent source of data -- the Census Bureau's government finances survey -- will be used for all annual estimates of state and local taxes.

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Table A.--SOURCE DATA FOR THE ADVANCE AND PRELIMINARY  
ESTIMATES OF GDP FOR THE THIRD QUARTER OF 2003

This table shows the actual data used for the preliminary estimate of GDP for the third quarter of 2003. For these key series, actual data for September were not available in time for inclusion in the advance GDP estimate released on October 30, 2003, and BEA made assumptions for these source data. The numbers in brackets show the September values that had been assumed for the advance estimate. For most series, the data incorporated for August and, in some cases, for July, were preliminary, and the numbers shown in brackets are the values used last month.

All series shown in the table are in billions of dollars, seasonally adjusted at annual rates, and are published by the Bureau of the Census.

			2003			
	Apr.	May	Jun.	Jul.	Aug.	Sept.
Private fixed investment:						
Nonresidential structures:						
1 Value of new total private construction put in place less residential (inc. improvements)...	218.9	216.1	217.1	217.2 {217.8}	213.9 {212.0}	219.2 {213.4}
Equipment and software:						
2 Manufacturers' shipments of complete aircraft.....	20.0	22.6	34.1	29.1	24.8 {24.8}	24.0 {21.9}
Residential structures:						
Value of new residential construction put in place:						
3 Single family .....	287.6	290.6	292.9	299.4 {297.3}	305.8 {303.0}	312.1 {308.7}
4 Multifamily.....	32.7	33.6	33.4	34.0 {33.9}	34.4 {34.4}	34.3 {35.0}
Change in private inventories:						
5 Change in inventories for nondurable manufacturing.....	2.4	-3.9	10.9	-4.6	6.6 {4.3}	-1.1 {1.2}
5a Change in inventories for merchant wholesale and retail industries other than motor vehicles and equipment....	-14.7	-24.5	5.6	15.2	3.9 {-4.6}	40.4 {-12.4}
Net exports:						
Exports of goods:						
6 U.S. exports of goods, international-transactions-accounts basis.....	686.8	693.1	711.1	724.2	692.1 {693.0}	717.9 {712.1}

6a	Excluding gold.....	682.9	687.9	703.3	720.5	685.1 {686.0}	712.8 {707.8}
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Imports of goods:

7	U.S. imports of goods, international-transactions- accounts basis.....	1243.1	1253.0	1252.0	1264.6	1228.8 {1226.9}	1275.7 {1268.7}
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7a	Excluding gold.....	1240.2	1249.4	1246.2	1262.1	1223.4 {1221.5}	1271.3 {1265.0}
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8	Net exports of goods.....	-556.3	-559.8	-540.9	-540.4	-536.6 {-533.9}	-557.8 {-556.6}
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8a	Excluding gold.....	-557.3	-561.5	-542.9	-541.6	-538.3 {-535.6}	-558.5 {-557.2}
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Government:

State and local:

Structures:

9	Value of new construction put in place.....	191.5	193.2	199.5	200.7 {198.1}	201.9 {198.8}	203.3 {198.5}
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